Approved For Release 2005/01/11 : CIA-RDP85T00875R001500220033-2

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Liberia: Current Economic Problems

Secret

ER IM 68-31
MARCH 1968

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

INTELLIGENCE MEMORANDUM

Liberia: Current Economic Problems

Summary

Liberian officialdom is currently deeply concerned with the country's pressing foreign debt servicing problem, and the question of stretching out debt payments is almost certain to be raised during President Tubman's late March visit to Washington. Liberia fears it will be unable to meet the scheduled payments over the next few years with the revenues it now expects. [redacted] 25X1 Liberia could increase its revenues by imposing new taxes, by efficiently collecting those already on the books, and by renegotiating concession agreements. It is far from certain that the government would do all this, or that if it did the resultant revenues would be adequate to service the debt. In any event, the currently scheduled payments are quite onerous in terms of Liberian revenues. The total national budget, for example, is considerably smaller than that of Arlington County, Virginia. The $17.9 million payment due next year is equivalent to about 40 percent of the government's anticipated current revenues, and Liberia hopes that it can be reduced by about $3 million and that subsequent payments can also be adjusted.

In 1963, Liberia was successful in having its foreign debt rescheduled, with the aid of the IMF, in return for undertaking to introduce a number of

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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fiscal reforms that would have controlled current spending and increased current revenue to assure adequate funds for debt servicing. Few of these reforms were implemented, however, and in the interim the prices of rubber and iron ore, Liberia's major exports, fell below expectations and government revenues dropped.

Liberia's foreign debt now totals almost $200 million, more than one-half of it owed to the US Government. Much of the rest is high-interest, relatively short-term loans which have financed many projects that are not self-amortizing and have contributed little to economic development. Economic growth has occurred, but it is almost entirely attributable to private foreign investment.

The monetary economy -- consisting largely of rubber plantations and iron mines built by foreign capital -- has grown rapidly over the past 15 years and is expected to continue to expand, although at a slower rate. The oligarchy which runs the country has benefited handsomely from its share of the profits. Government expenditures have also grown rapidly but have had relatively little impact on economic development. The level of public health, education, and services to peasant agriculture remains one of the lowest in Africa. Most of the population is still in the subsistence sector and largely untouched by the money economy. Although there is considerable room for expanding food production to cover domestic consumption, obstacles are numerous. Liberia's small potential local market also hampers expansion of manufacturing and processing industries.

While lower debt payments and additional aid would ease the immediate financial problem, Liberian revenues for the next few years are likely to cover only current expenditures, and the amount available from government sources for development would be almost nil. Development funds would have to come from foreign investment and/or foreign aid. Even if such funds become available, however, economic progress will be impeded by the rigid oligarchy which has demonstrated little real interest in development and has proved to be unwilling to alter existing economic patterns that work to its financial advantage.

The Nature of the Economy


President Tubman

1. The million-plus inhabitants of Liberia are ruled by an oligarchy of 20,000 Americo-Liberians, descended largely from freed American slaves who were settled along the coast in the early 1800's. Their culture and customs are patterned after those of the ante-bellum American South; their conservatism is perhaps even greater than that of their model. Together with their spokesman, President William V. S. Tubman (first elected in 1944), they hold all the major government positions, control almost all the domestic wealth of the country, and derive their substantial incomes largely from their positions or connections. Their control is pervasive and exercised formally through the True Whig Party, which has been in power continuously since 1878. With the help of several thousand foreign experts and managers, they run the modern economy. The consistent dominance of this small elite has resulted in a political stability unusual for Africa, which has in turn attracted considerable foreign investment.

2. In Africa, Liberia is viewed as a protégé of the United States, and American interests dominate the economy. US investment totals about $350 million and is probably surpassed in Sub-Saharan Africa only by US investment in the Republic of South Africa. American-owned banks handle most financial transactions; a wholly-owned subsidiary of the First National City Bank of New York acts as the country's central bank, and Liberia uses the US dollar as its currency. About 3,500 Americans work or live in Liberia, and more than one-third of them are connected with US government activities. More than one-half of the 1,500 ships registered under Liberia's flag of convenience are American owned. The United States is also Liberia's major trading partner and by far the largest source of aid.

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4. The modern sector of the economy consists largely of four iron mines built and run by foreigners, four rubber plantations in production financed largely by American firms, a few Americo-Liberian rubber farms, and the government establishment (see Figure 1). Together, rubber and iron ore operations account for about 90 percent of the country's exports, directly provide more than 25 percent of government revenues and indirectly much of the rest, and employ more than 55 percent of the wage earners (see Figure 2). Output has grown rapidly since World War II. In the 15 years between 1951 and 1966, estimated gross national product increased between 5 and 10 percent a year. Government revenues more than tripled over the period. This growth can be attributed almost wholly to the influx of private investment, which now totals about $550 million. Employment on the rubber plantations, and to a lesser extent in the iron mines and in government services, has brought about one-third of the population at least partly into the monetary economy. Nevertheless, almost all skilled and semi-skilled positions, including even wholesale and retail trade, are held by foreigners.

5. Since 1962, iron ore exports have become the most important source of foreign exchange, and investment in mining over the past decade has fueled most of Liberia's growth. In 1964, for example,

* *Including about $60 million in Export-Import Bank loans to mining companies.*

Figure 1

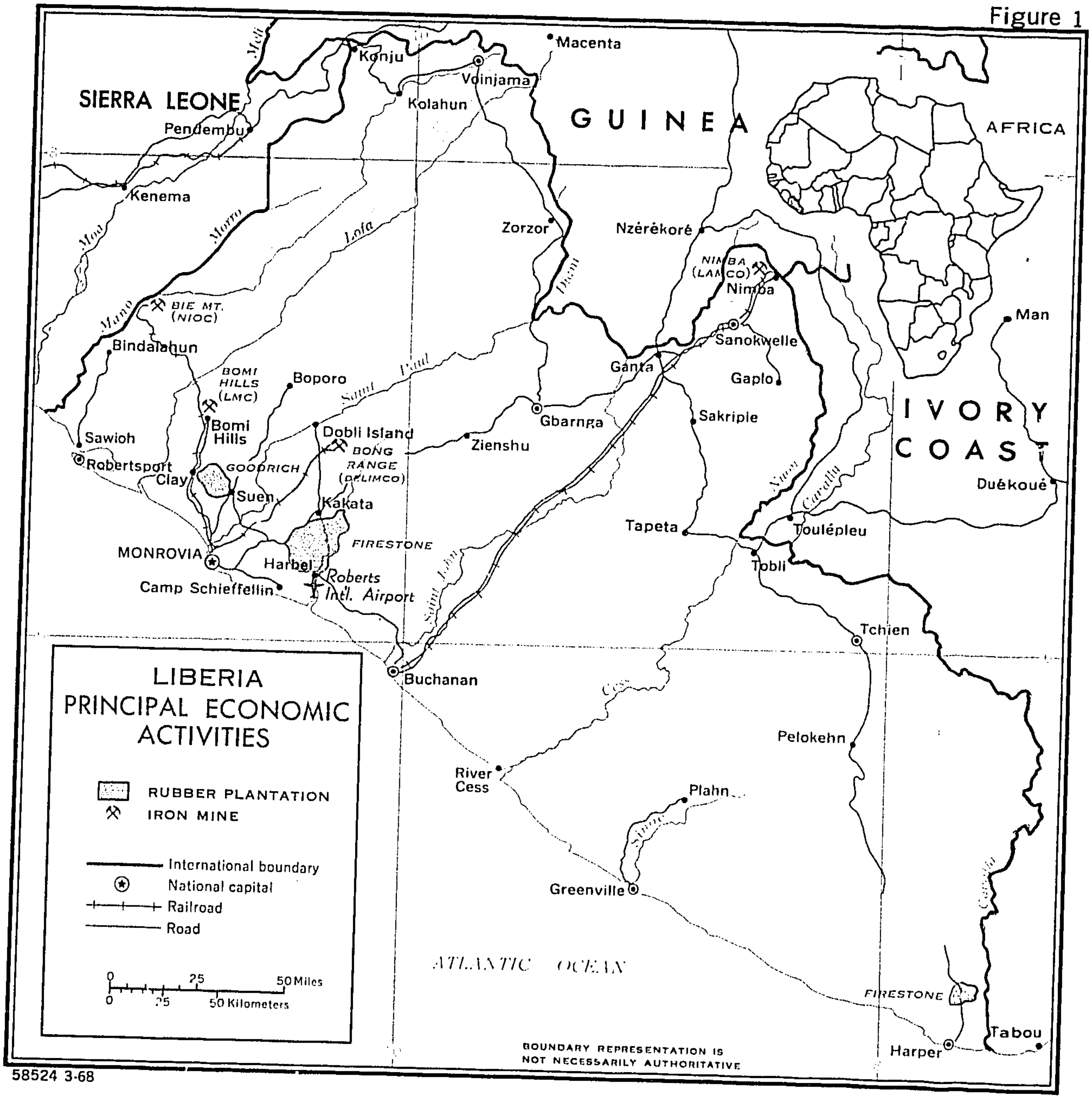
SIERRA LEONE
GUINEA
AFRICA
IVORY COAST
Macenta
Konju
Voinjama
Kolahun
Pendembu
Kenema
Zorzor
Nzérékoré
NIMBA (LAMCO)
Nimba
Man
BIE MT. (NIOC)
Bindalahun
Sanokwelle
Ganta
Gaplo
BOMI HILLS (LMC)
Boporo
Gbarnga
Sakriple
Sawioh
Bomi Hills
Dobli Island
BONG RANGE (DELIMCO)
Zienshu
Robertsport
Clay
GOODRICH
Suen
Kakata
Duékoué
Tapeta
Toulépleu
FIRESTONE
MONROVIA
Harbel
Roberts Intl. Airport
Tobli
Camp Schieffelin
Tchien
Buchanan
LIBERIA
PRINCIPAL ECONOMIC ACTIVITIES
RUBBER PLANTATION
IRON MINE
International boundary
National capital
Railroad
Road
0 25 50 Miles
0 25 50 Kilometers
Pelokehn
River Cess
Plahn
Greenville
ATLANTIC OCEAN
FIRESTONE
Tabou
Harper
BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE
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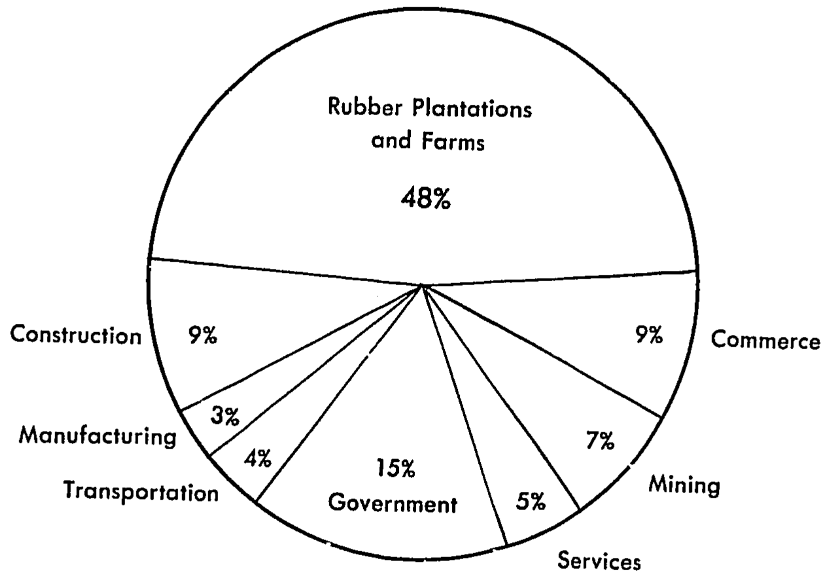
Figure 2

LIBERIA: ESTIMATED DISTRIBUTION OF THE WAGE LABOR FORCE, 1967



TOTAL: 104,000 PERSONS

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iron mining accounted for about a fourth of estimated gross domestic product (GDP). Exports have risen rapidly in volume but the world price has dropped steadily since 1960 (see Figures 3 and 4). Liberian iron ore sold for $6.40 per long ton in 1966, for example, compared with about $11.90 a ton in 1960. Consequently, although output has grown fast enough to keep the value of exports rising despite declining prices, Liberia's overall earnings from iron mining have fallen far below its expectations, and this is the root cause of much of the country's current financial difficulty.

6. Iron ore prices are not expected to recover over the next few years but the total value of exports will probably continue to rise because output is slated to expand. The Liberian American-Swedish Minerals Company (LAMCO),* the largest

* *An affiliate of Swedish mining interests and Bethlehem Steel.*

Figure 3

LIBERIA: IRON ORE EXPORTS, 1959-66

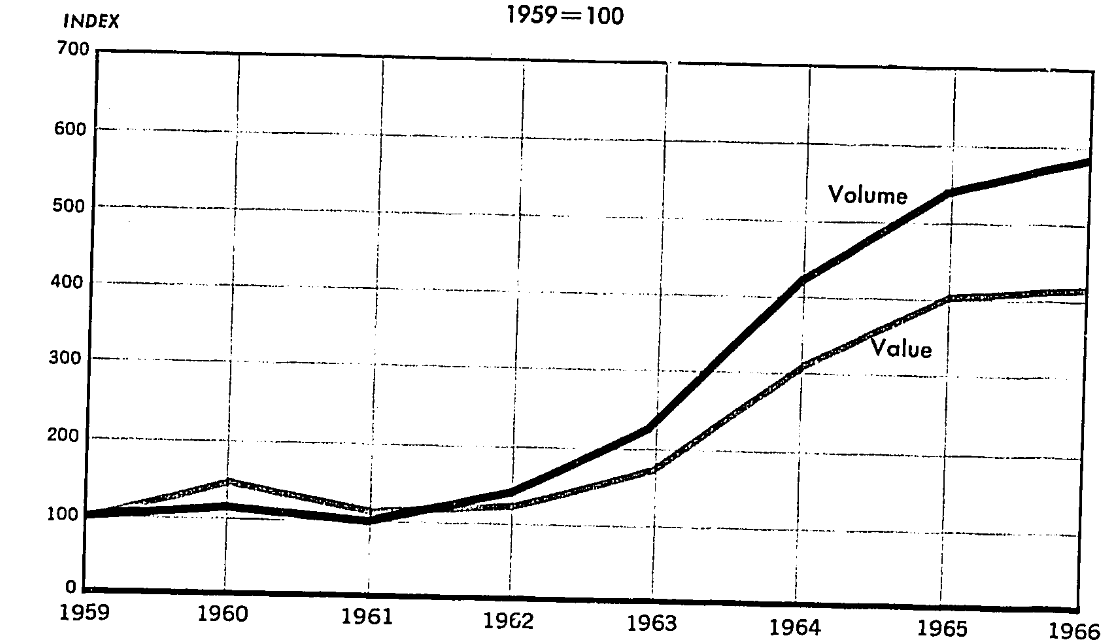

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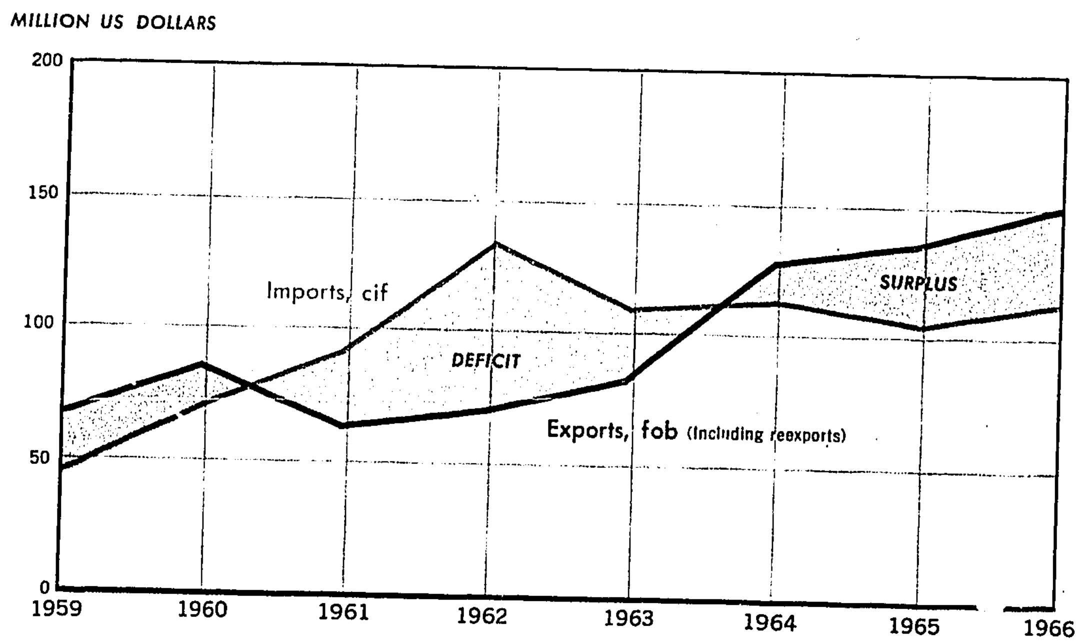
Figure 4

LIBERIA: EXTERNAL TRADE, 1959-66



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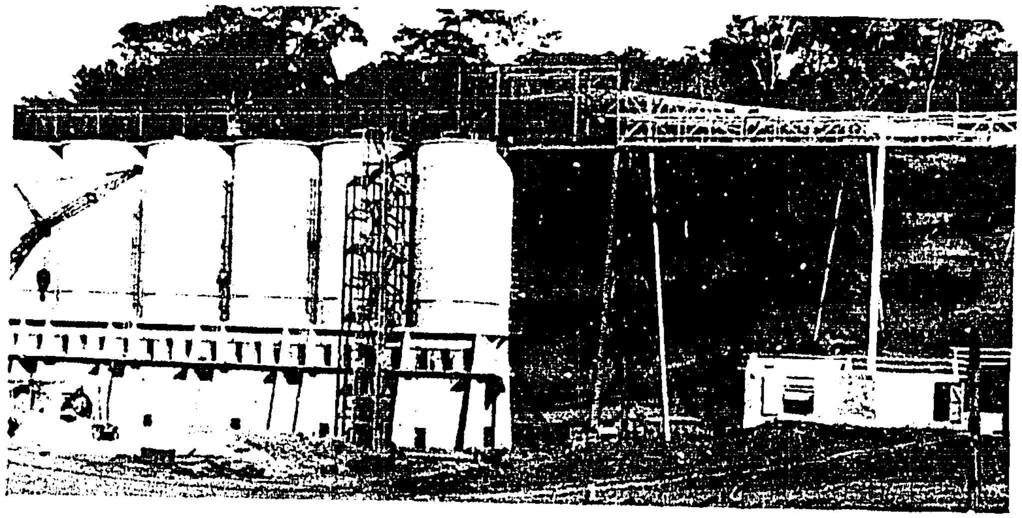
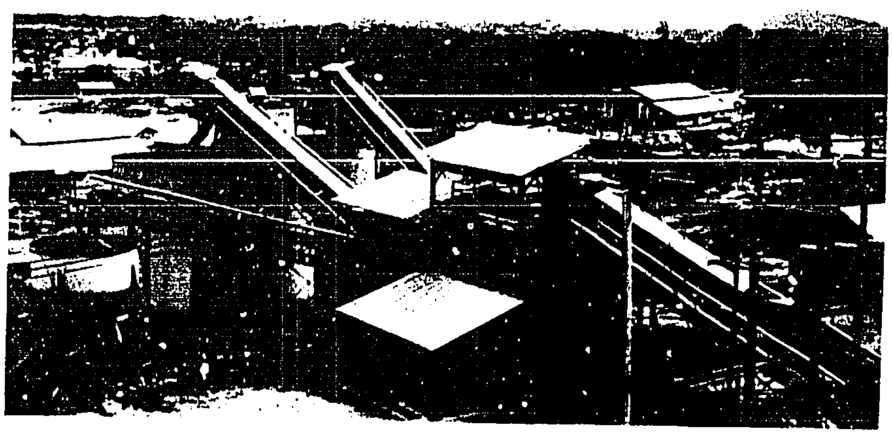


LAMCO Iron Ore Loading Bins in the Nimba Mountains

producer, recently completed a $57 million pelletizing plant which should bring Liberian exports to about 20 million long tons this year. The company also expects to begin feasibility studies for another mining site in the near future.

7. The three mining concessions,* each owned 50 percent by the Liberian government, and the Liberia Mining Company (LMC), controlled by Republic



Liberian Mining Company's Iron Ore Mine in the Bomi Hills

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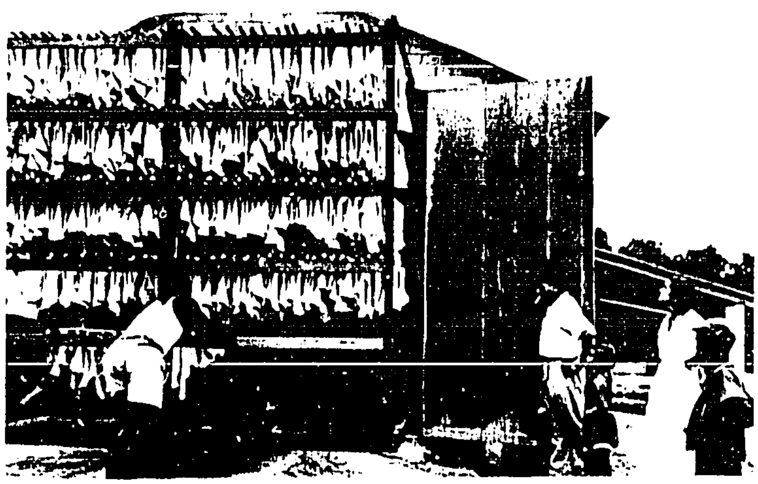
* *LAMCO, the German Liberian Mining Company (DELIMCO), and the National Iron Ore Company (NIOC).*

Steel, all pay half their net profits to the Liberian government. They repatriate most of the remainder, however, and are currently servicing sizable loans with a relatively rapid payoff so that their net contribution to the economy is considerably smaller than the value of their output might suggest.

8. Rubber is the only important agricultural export. From the mid-1920's until the early 1960's and the opening of the iron mines, the Firestone plantation was the single most important economic factor in the country. The volume of rubber exports

Firestone Rubber-Processing Plant



Liberian Privately-Owned Rubber Factory has risen fairly rapidly over the past decade, but as in the case of iron ore, the world price has fallen drastically. In 1967, for example, the world price for natural rubber averaged about 18 cents a pound, less than half the 1960 price.

9. Production is expected to continue to increase as new plantings of high-yielding stock begin to bear. Two new plantations, including one owned by the US Rubber Company, will come into production within the next several years. Moreover, Firestone, B.F. Goodrich, and the African Fruit Company all have sizable acreages in trees that are not yet producing. (For data on rubber production in Liberia during 1960-67, see Table 1.)

10. Partly with Firestone's assistance, Liberians in increasing numbers have taken to growing rubber. The Americo-Liberians are usually the absentee owners of the larger and more successful farms. Almost two-thirds of the 4,000 rubber farms cover less than 20 acres and are generally very inefficient. The quality of their output tends to be much lower than that on the plantations and, for many, earnings have fallen below production costs in recent years. This is partly due to inefficiency in tapping and partly to their failure to replace older trees with new high-yielding varieties that can produce four to five times as much latex per tree. In November 1967, President Tubman announced a price support program for small rubber producers to be financed through interest-free loans from the rubber concessionaires. The program may keep many growers in production, but it will reduce the incentive to improve their holdings.

11. Seven or eight small diamond dealers buy from African diggers and from smugglers who handle "tourist" diamonds from Sierra Leone and Ghana. Diamonds, however, account for only about 2 percent of total exports. Coffee is similarly smuggled in from neighboring territories and exported as Liberian produce. Only about one-third of the coffee exported is actually grown in the country. Coffee exports are likely to drop sharply because Liberia recently joined the International

Table 1

Liberia: Rubber Production
Selected Years, 1960-67

	1960	1964	1965	1966	1967 a/
Individual Farms					
Cultivated acres in production	49,000	63,260	69,000		
Cultivated acres not in production	37,000	64,525	63,100		
Total acres cultivated	86,000	127,785	132,100		
Output (long tons, dry rubber content)	6,439	8,749	12,628		
Concessions					
Cultivated acres in production	68,636	76,890	81,055		
Cultivated acres not in production	27,034	49,440	51,816		
Total acres cultivated	95,670	126,330	132,871		
Output (long tons, dry rubber content)	35,751	34,283	37,180		
Total					
Acres cultivated	*181,670*	*254,115*	*264,971*		
Output (long tons, dry rubber content)	*42,190*	*43,032*	*49,808*	*54,553*	*60,250*

a. Estimated.

Coffee Organization and was assigned a fairly small export quota which approximates estimated domestic production. Liberia also produces insignificant quantities of palm kernels, cocoa, and piassava for export. Soils and climate are suitable for a considerable expansion of agriculture, but the development of cash cropping has hardly begun.

12. The government establishment, centered in Monrovia, is the second largest employer after the rubber plantations. Government personnel number about 16,000, and the payroll is the largest in the country, more than $17 million a year. Infrastructure and services are largely confined to the capital city and its environs and to the rubber plantations and iron mines. Schools, medical facilities, roads, and other such facilities are rare outside the productive enclaves and the capital.

13. Between one-half and two-thirds of the population is relatively isolated from events in the modern economy and depends almost entirely on traditional agriculture. Rice and cassava are the staple foods, rice being favored in urban and plantation areas. Domestic production of cassava has probably kept up with population growth, but production of rice remained fairly constant over the past decade although demand has increased. As a result, Liberia now imports almost 40 percent of the rice it consumes. There is little local incentive to raise output because farmers often have no way to get their crop to rice mills. The few mills are privately owned by Americo-Liberians who often impose a milling charge of 25 percent of the retail value of the rice.

14. There is considerable room for expanding food production, diversifying cash crops, and exploiting forest reserves, but obstacles are numerous. Roads to market are few and poorly maintained, agricultural credit facilities are practically non-existent, and peasants lack good seed, modern tools, and insecticides. Draft animals are rare, principally because of disease. Moreover, in many areas, corruption and extortion on the part of police, army, and tax collectors provide a positive disincentive to increase production.

15. Peasant agriculture has received very low priority in government spending. Although President Tubman announced a crash $2 million development program in November 1967, principally to promote rice production, little is likely to come of it. Significant development of peasant agriculture awaits considerable investment in infrastructure -- including roads and marketing facilities -- and the establishment of agricultural credit facilities. Moreover, real progress would require an end to the corruption and extortion and the provision of positive incentives for increased production, none of which now seems likely.

The Debt Problem

16. Liberia's most visible financial problem is the burden of repaying its foreign debt. The principal now totals almost $200 million. Approximately $157 million was incurred by 1963 to finance a wide variety of projects, including public buildings, schools, and roads, but relatively few of them were self-amortizing. Worse yet, many of the loans were short-term or medium-term at interest rates up to 10 percent.

17. In 1963, Liberia was faced with an annual payment of $33.5 million, the equivalent of about 90 percent of government revenues for that year.* Since it was clearly impossible to pay this much, the government appealed to the IMF for financial aid and assistance in rescheduling the debt. As a result the payments were stretched out over 15 years and the IMF has provided stand-by loans each year since 1963 [redacted] The rescheduling was predicated on a rise in Liberian government revenues and on strict control over current expenditures. Revenues failed to increase as projected, however,

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largely because rubber and iron ore prices declined, thus depressing company profits and income tax payments. Also, Liberia failed to implement all of the IMF-sponsored fiscal reforms designed to increase tax collections. Some reforms were adopted, although with disappointing results. The government undertook to restrain the increase in current spending (excluding debt service) to 5 percent a year or less in order to make funds available from ordinary revenue for debt service, but current spending in 1965 and 1966 rose by 10 percent or more each year. Expenditures increased in 1967, but it is not yet clear by how much.

18. Liberia, however, has generally refrained from new borrowing from suppliers and contractors. This type of high-interest, short-term debt led to the severe financial crisis in 1963. New foreign debt incurred since early 1963 is largely the result of refunding existing debt and long-term, low-interest loans from AID. For example, outstanding debt to the United States increased about $40 million between the renegotiation and the beginning of 1968. Of this, more than $18 million was AID loans for such projects as schools, technical assistance, a sewage system for Monrovia, and the Public Utilities Authority. Assumption of responsibility for the Port of Monrovia added another $19 million to Liberian debt, although it is to be repaid over a very long time into a joint US-Liberian fund for education and culture. The balance of the increase in debt to the United States was made up by PL-480 loans and military assistance.

19. Total debt outstanding increased only about $34 million since early 1963 to about $200 million. Of this, more than $13 million was owed to the IMF for stand-by assistance.

20. Liberia apparently met the payment schedule for 1964 through 1967 which seems to have averaged about $10 million a year, the better part of which was interest. These payments were slightly higher than originally scheduled because of additional borrowing and were made partly through using IMF stand-by assistance and a $13.3 million refunding loan from the Export-Import Bank.

21. According to the current debt schedule, Liberia is to pay about $6 million more in 1969 than in 1968. The government is now seeking US support for a second debt rescheduling on the grounds that it will have great difficulty in meeting the payments scheduled [redacted]

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22. Liberian officials predict that rising revenues from public corporations like the Port Authority will average more than $2 million annually through 1973. If this sum were set aside for debt servicing, it would leave only about $12 million to $13 million to be met from ordinary government revenue over the next few years. Whether Liberia could meet the reduced payment levels it proposes would depend on its budgetary policies, the levels of rubber and iron ore prices, and on the amount of financial aid it receives.

23. If Liberia controls current spending and implements most of the IMF suggestions for increasing internal revenues, it probably can meet the proposed revised schedules.

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Prospects

24. Whatever the outcome of Liberia's current efforts to reduce the debt servicing burden, its overall economic prospects depend on what happens in the plantation and mining sectors and on Liberian government policies toward development of the traditional sector. Perhaps the most crucial factor is how the government handles its revenues and expenditures over the next decade or so.

25. Unless revenues from mining, plantations, and the rest of the money economy increase substantially -- and this does not seem likely -- the government will have only a modicum of development funds from its own resources. Debt rescheduling and/or a revenue increase [redacted] could free some funds for investment in infrastructure and agriculture. Without one or both, investment funds from internal sources would be negligible. Even if a revenue surplus became available for the capital budget, there is little assurance it would be so used. Government spending habits are deeply entrenched, and so long as the present administrative system is maintained, current expenditures will tend to equal or surpass revenues. Development, then, is likely to become chiefly a function of the amount of foreign aid or investment devoted to increasing output. 25X1

26. A major government effort to expand agriculture by integrating the traditional sector into the monetary economy would probably be the best route to development. It would, however, involve a substantial investment in infrastructure, marketing facilities, and agricultural credit for the benefit of the farming community at large. But the ruling oligarchy cannot be expected to make basic reforms that would adversely affect its own fortunes, and, to date, it has shown little real interest in making the kind of effort that could promote general economic development. There are, however, an increasing number of young, educated, tribal and non-tribal Liberians who feel a growing sense of frustration with the establishment. In time, these elements are expected to play an increasing role in the political and economic life of the country. But change is likely to come slowly.